98TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 98–120

REPEAL OF WITHHOLDING OF TAX FROM INTEREST AND DIVIDENDS

MAY 13, 1983.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 2973]

The Committee on Ways and Means, to whom was referred the bill (H.R. 2973) to repeal the withholding of tax from interest and dividends, having considered the same, reports thereon without recommendation.

I. EXPLANATION OF THE BILL

PRESENT LAW

Generally, present law (enacted in the Tax Equity and Fiscal Responsibility Act of 1982—TEFRA) provides for a system of withholding on payments of dividends, patronage dividends, and interest to individuals (other than certain low-income and elderly individuals) at a rate of 10 percent to take effect on July 1, 1983. Withholding also will be required on payments to unincorporated entities, such as partnerships and estates, which are not themselves required to withhold on payments to individuals.

Exemptions from withholding are specifically provided for various types of payments, including: (1) payments to individuals who had tax liability in the preceding year of $600 or less ($1,000 in the case of a joint return); (2) payments to persons age 65 or older whose tax liability in the preceding year was $1,500 or less ($2,500 in the case of a joint return); (3) at the payor's election, payments which do not exceed $150 and which would not exceed $150 on an annual basis; (4) payments to corporations, governments, security dealers, money market funds, exempt organizations, and nominees or custo-

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dians; (5) payments to trusts that must distribute all of their income currently, if all the beneficiaries are individuals who could qualify as exempt individuals on the basis of their prior year's tax liability, (6) exempt organizations or individual retirement plans; and (7) certain payments by consumer cooperatives.

In addition, subject to Treasury Department regulations, banking institutions were permitted to elect to defer withholding to the end of the year with respect to payments of interest on most deposit and transaction accounts and withhold on alternative sources. In implementing the withholding deposit requirements, the Treasury Department is required to take into account the costs incurred by payors in instituting withholding. The Treasury Department's regulations provide an extended period for making otherwise required deposits of 19 banking days. Thus, payors may retain withheld amounts for an average of one calendar month before depositing them. This extended period is available to all payors through June 1984. After June 1984, medium and small banking organizations will have the extended deposit period for an additional one and two years, respectively. Further, the Secretary may exempt any payor from the withholding requirement, but not beyond 1983, if complying with the requirement prior to January 1, 1984, would impose an undue hardship on the payor.

REASONS FOR COMMITTEE ACTION

As part of the budget reconciliation process in 1982, the Congress enacted the Tax Equity and Fiscal Responsibility Act of 1982 to satisfy the requirements of the Budget Resolution for fiscal year 1983 that revenues be increased by $98.3 billion over the three fiscal years 1983 through 1985. Twenty-one percent of this revenue target was achieved through strengthening of the compliance provisions of the Internal Revenue Code. The largest single element of the compliance package was the imposition of withholding on interest, dividend and patronage dividend payments to take effect on July 1, 1983.

The withholding provisions of TEFRA became the subject of intense discussion after their enactment. Many members of the House of Representatives introduced or co-sponsored bills during this session to repeal these withholding provisions. The committee announced its intention to hold hearings to review the withholding provisions on June 2 and 3, 1983. By signing a motion to discharge the committee from consideration of a bill similar to H.R. 2973, however, a majority of the members of the House expressed their desire to have an opportunity to vote on a repeal bill at an early opportunity. Therefore, in recognition of the desires of the House, the committee has reported H.R. 2973, which would repeal withholding on interest and dividends and waive certain estimated tax payment penalties for 1983, without making any recommendations as to whether it should or should not be favorably considered by the House.

EXPLANATION OF PROVISIONS

The bill contains two amendments to the Internal Revenue Code of 1954. First, the bill repeals the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 relating to withholding on interest, dividends, and patronage dividends and provide that the Internal

Revenue Code should be construed as though those provisions had never been enacted.

Second, the bill provides that for purposes of computing any penalty for underpayment of estimated tax by individuals with respect to installments required to be paid before July 1, 1983, an amount equal to 10 percent of any payments received or accrued after June 30, 1983, and before January 1, 1984, which would have been subject to withholding, shall be treated as a payment of tax. This determination is made without regard to whether individuals would have been exempt from withholding. Thus, if a taxpayer reduced any pre-July 1, 1983, estimated tax payment in anticipation of withholding, the taxpayer will not be subject to estimated tax payment penalties by reason of that action. To the extent estimated taxes for the pre-July period would have been underpaid even if withholding had taken effect, a penalty may still be imposed. Finally, taxpayers are required to meet their estimated tax payment obligations for the second half of 1983 without claiming any benefit that would have arisen from withholding.

EFFECTIVE DATE

The bill will take effect upon enactment.

REVENUE EFFECT

It is anticipated that the bill will reduce fiscal year budget receipts by $0.3 billion in 1983, $2.5 billion in 1984, $2.5 billion in 1985, $2.5 billion in 1986, $2.7 billion in 1987, $2.9 billion in 1988, with a total of $13.4 billion for years 1983 through 1988.

II. Effect of the Bill on the Budget and Vote of the Committee in Reporting the Bill

BUDGET EFFECTS

In compliance with clause 7 of Rule XIII of the Rules of the House of Representatives, the following statement is made about the effect on the budget of this bill, H.R. 2873.

The bill will reduce fiscal year budget receipts by $0.3 billion in 1983, $2.5 billion in 1984, $2.5 billion in 1985, $2.5 billion in 1986, $2.7 billion in 1987, and $2.9 billion in 1988.

The Treasury Department agrees with this statement.

VOTE OF THE COMMITTEE

In compliance with clause 2(l)(2)(B) of Rule XI of the Rules of the House of Representatives, the following statement is made about the vote of the committee on the motion to report the bill. The bill, H.R. 2973, was ordered reported without amendment or recommendation by voice vote.

III. Other Matters to be Discussed Under House Rules

In compliance with clause 2(l)(3) and (2)(l)(4) of Rule XI of the Rules of the House of Representatives, the following statements are made with respect to the committee action on H.R. 2973, as reported.

OVERSIGHT FINDINGS

With respect to subdivision (A) of clause 2(l)(3) (relating to oversight findings), the committee advises that the reporting of the bill did not result from the committee's oversight activities.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

With respect to subdivision (B) of clause 2(l)(3) after consultation with the Director of the Congressional Budget Office, the committee states that the changes made to existing law by this bill involve no new budget authority or new or increased tax expenditures.

CONSULTATION WITH CONGRESSIONAL BUDGET OFFICE ON BUDGET ESTIMATES

With respect to subdivision (C) of clause 2(l)(3), the committee advises that the Director of the Congressional Budget Office has examined the committee's budget estimates (as indicated in part II of this report) and agrees with the estimates.

OVERSIGHT BY COMMITTEE ON GOVERNMENT OPERATIONS

With respect to subdivision (D) of clause 2(l)(3), the committee advises that no oversight findings or recommendations have been submitted to the committee by the Committee on Government Operations regarding the subject matter of this bill.

INFLATIONARY IMPACT

In compliance with clause 2(l)(4), the committee states that the enactment of this bill could contribute to overstimulating the economy at some point in the future and, thereby, lead to additional inflation.

Changes in Existing Law Made by the Bill, As Reported

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, existing law in which no change is proposed is shown in roman):

Tax Equity and Fiscal Responsibility Act of 1982

TITLE III—TAXPAYER COMPLIANCE

[Subtitle A—Withholding on Interest and Dividends

[SEC. 301. WITHHOLDING ON INTEREST AND DIVIDENDS.

[Chapter 24 (relating to collection of income tax at source on wages) is amended by adding at the end thereof the following new subchapter:

["Subchapter B—Withholding From Interest and Dividends

["Sec. 3451. Income tax collected at source on interest, dividends, and patronage dividends.
["Sec. 3452. Exemptions from withholding.
["Sec. 3453. Payor defined.
["Sec. 3454. Definitions of interest, dividend, and patronage dividend.
["Sec. 3455. Other definitions and special rules.
["Sec. 3456. Administrative provisions.

["SEC. 3451. INCOME TAX COLLECTED AT SOURCE ON INTEREST, DIVIDENDS, AND PATRONAGE DIVIDENDS.

["(a) REQUIREMENT OF WITHHOLDING.—Except as otherwise provided in this subchapter, the payor of any interest, dividend, or patronage dividend shall withhold a tax equal to 10 percent of the amount of the payment.

["(b) SPECIAL RULES.—

["(1) TIME OF WITHHOLDING.—Except as otherwise provided in this subchapter, for purposes of this subchapter—

["(A) any payment of interest, dividend, or patronage dividend shall be treated as made, and

["(B) the tax imposed by this section shall be withheld, at the the time such interest, dividend, or patronage dividend is paid or credited.

["(2) PAYEE UNKNOWN.—If a payor is unable to determine the person to whom any interest, dividend, or patronage dividend is payable or creditable, the tax under this section shall be withheld at the time withholding would be required under paragraph (1) if the payee were known and were an individual.

["(3) AMOUNT OF DIVIDENDS, ETC., UNKNOWN.—

["(A) IN GENERAL.—If the payor is unable to determine the portion of a distribution which is a dividend, the tax under this section shall be computed on the gross amount of the distribution. To the extent provided in regulations, a similar rule shall apply in the case of interest and patronage dividends.

["(B) DISTRIBUTIONS WHICH ARE NOT DIVIDENDS.—To the extent provided in regulations, this section shall not apply to the extent that the portion of a distribution which is not a dividend may reasonably be estimated.

["(4) WITHHOLDING FROM ALTERNATIVE SOURCE.—The Secretary shall prescribe regulations setting forth the circumstances under which the tax imposed by this section may be paid from an account or source other than the payment which gives rise to the liability for tax.

["(c) LIABILITY FOR PAYMENT.—

["(1) PAYOR LIABLE.—Except as otherwise provided in this subchapter, the payor—

["(A) shall be liable for the payment of the tax imposed by this section which such payor is required to withhold under this section, and

["(B) shall not be liable to any person (other than the United States) for the amount of any such payment.

["(2) RELIANCE ON EXEMPTION CERTIFICATES.—The payor shall not be liable for the payment of tax imposed by this section which such payor is required to withhold under this section if—

["(A) such payor fails to withhold such tax, and

["(B) such failure is due to reasonable reliance on an exemption certificate delivered to such payor under section 3452(f) which is in effect with respect to the payee at the time such tax is required to be withheld under this section.

[SEC. 3452. EXEMPTIONS FROM WITHHOLDING.

["(a) IN GENERAL.—Section 3451 shall not apply with respect to—

["(1) any payment to an exempt individual,

["(2) any payment to an exempt recipient,

["(3) any minimal interest payment, or

["(4) any qualified consumer cooperative payment.

["(b) EXEMPT INDIVIDUALS.—

["(1) IN GENERAL.—For purposes of this section, the term 'exempt individual' means any individual—

["(A) who is described in paragraph (2), and

["(B) with respect to whom an exemption certificate is in effect.

["(2) INDIVIDUALS DESCRIBED IN THIS PARAGRAPH.—An individual is described in this paragraph if—

["(A) such individual's income tax liability for the preceding taxable year did not exceed $600 ($1,000 in the case of a joint return under section 6013), or

["(B)(i) such individual is 65 or older, and

["(ii) such individual's income tax liability for the preceding taxable year did not exceed $1,500 ($2,500 in the case of a joint return under section 6013).

["(3) SPECIAL RULE FOR MARRIED PERSONS.—A husband and wife shall each be treated as satisfying the requirements of paragraph (2)(B)(i) if—

["(A) either spouse is 65 or older, and

["(B) such husband and wife made a joint return under section 6013 for the preceding taxable year.

["(4) SPECIAL RULE FOR CERTAIN TRUSTS DISTRIBUTING CURRENTLY.—Under regulations, a trust—

["(A) the terms of which provide that all of its income is required to be distributed currently, and

["(B) all the beneficiaries of which are individuals described in paragraph (2) or organizations described in subsection (c)(2)(B),

shall be treated as an individual described in paragraph (2).

["(5) INCOME TAX LIABILITY.—For purposes of this subsection, the term 'income taxliability' means the amount of the tax imposed by subtitle A for the taxable year, reduced by the sum of the credits allowable against such tax (other than credits allowable by sections 31, 39, and 43).

["(c) EXEMPT RECIPIENTS.—

["(1) IN GENERAL.—For purposes of this section, the term 'exempt recipient' means any person described in paragraph (2)—

[“(A) with respect to whom an exemption certificate is in effect, or

[“(B) who is described in regulations prescribed by the Secretary which permit exemption from withholding without certification.

[“(2) PERSONS DESCRIBED IN THIS PARAGRAPH.—A person is described in this paragraph if such person is—

[“(A) a corporation,

[“(B) an organization exempt from taxation under section 501(a) or an individual retirement plan,

[“(C) the United States or a State,

[“(D) a foreign government or international organization,

[“(E) a foreign central bank of issue,

[“(F) a dealer in securities or commodities required to register as such under the laws of the United States or a State,

[“(G) a real estate investment trust (as defined in section 856),

[“(H) an entity registered at all times during the taxable year under the Investment Company Act of 1940,

[“(I) a common trust fund (as defined in section 584(a)),

[“(J) a nominee or custodian (except as otherwise provided in regulations),

[“(K) to the extent provided in regulations—

[“(i) a financial institution,

[“(ii) a broker, or

[“(iii) any other person specified in such regulations, who collects any interest, dividend, or patronage dividend for the payee or otherwise acts as a middleman between the payor and payee, or

[“(L) any trust which—

[“(i) is exempt from tax under section 664(c), or

[“(ii) is described in section 4947(a)(1).

[“(3) PAYOR MAY REQUIRE CERTIFICATION.—A person described in paragraph (1)(B) shall not be treated as an exempt recipient for purposes of this section with respect to any payments of such payor if—

[“(A) an exemption certificate is not in effect with respect to such person, and

[“(B) the payor does not treat such person as an exempt recipient.

[“(d) MINIMAL INTEREST PAYMENTS.—

[“(1) IN GENERAL.—For purposes of this section, the term ‘minimal interest payment’ means any payment of interest—

[“(A) with respect to which an election by the payor made

[“(i) does not exceed $150, and

[“(B) which—

[“(i) does not exceed $150, and

[“(ii) if determined for a 1-year period would not exceed $150.

[“(2) AGGREGATION OF PAYMENTS TO SAME PAYEE.—To the extent provided in regulations prescribed by the Secretary, payments of interest by a prayor to the same payee shall be aggregated for purposes of applying paragraph (1)(B).

[“(3) ELECTION.—

[“(A) IN GENERAL.—Any payor may make an election under this paragraph with respect to any type of interest payments.

[“(B) EFFECTIVE UNTIL REVOKED.—Except as provided in regulations prescribed by the Secretary, an election made by any person under this paragraph shall remain in effect until revoked by such person.

[“(C) TIME AND MANNER.—Any election or revocation of an election made under this paragraph shall be made at such time and in such manner as the Secretary shall prescribe by regulations.

[“(e) QUALIFIED CONSUMER COOPERATIVE PAYMENT.—For purposes of this section, the term ‘qualified consumer cooperative payment’ means any payment by a cooperative which is exempt from reporting requirements under section 6044(a) by reason of section 6044(c).

[“(f) EXEMPTION CERTIFICATES.—

[“(1) IN GENERAL.—

[“(A) DELIVERY.—An exempt individual or exempt recipient may deliver an exemption certificate to a payor at any time. Such certificate shall be in such form and contain such information as the Secretary shall prescribe.

[“(B) CHALLENGE OF STATUS.—Any person who ceases to be an exempt individual or exempt recipient shall, not later than the close of the 10th day after the date of such cessation, notify each payor with whom such person has an exemption certificate of such change in status. No notice shall be required under the preceding sentence with respect to any payor if it reasonably appears that the person will not thereafter receive a payment of interest, dividends, or patronage dividends from such payor.

[“(2) EFFECTIVENESS OF CERTIFICATES.—

[“(A) GENERAL RULE.—Except as otherwise provided in regulations prescribed by the Secretary, an exemption certificate shall be effective until—

[“(i) revoked, or

[“(ii) notice of change in status is provided pursuant to paragraph (1)(B).

[“(B) WHEN CERTIFICATE TAKES EFFECT.—The Secretary shall prescribe regulations setting forth—

[“(i) the day on which a filed exemption certificate shall be considered effective, and

[“(ii) the circumstances under which a payor shall treat an exemption certificate as having ceased to be effective where the Secretary has determined that the person described therein is not an exempt individual or exempt recipient.

[“SEC. 3453. PAYOR DEFINED.

[“(a) GENERAL RULE.—Except as otherwise provided in this subchapter, for purposes of this subchapter, the term ‘payor’ means the person paying or crediting the interest, dividend, or patronage dividend.

["(b) CERTAIN MIDDLEMEN TREATED AS PAYORS.—For purposes of this subchapter—

["(1) IN GENERAL.—To the extent provided in regulations—

["(A) any custodian for, or nominee of, the payee,

["(B) any corporate trustee of a trust which is the payee, or

["(C) any person which collects the payment for the payee or otherwise acts as a middleman between the payor and the payee,

shall be treated as a payor with respect to the payment.

["(2) RECEIPT TREATED AS PAYMENT.—To the extent provided in regulations, any person treated as a payor under paragraph (1) shall be treated as having paid the interest, dividend, or patronage dividend when such person received such amount.

["(c) AGENTS, ETC.—In the case of—

["(1) a fiduciary or agent with respect to the payment or crediting of any interest, dividend, or patronage dividend, or

["(2) any other person who has the control, receipt, custody, or disposal of, or pays or credits any interest, dividend, or patronage dividend for any payor,

the Secretary, under regulations prescribed by him, may designate such fiduciary, agent, or other person as a payor with respect to such payment or crediting for purposes of this subchapter.

["(d) TREATMENT OF PERSONS TO WHOM SUBSECTION (b) OR (c) APPLIES.—Any person treated as a payor under subsection (b) or (c).—

["(1) shall perform such acts as are required of a payor (within the meaning of subsection (a)) and as may be specified by the Secretary, and

["(2) shall be treated as a payor for all provisions of law (including penalties) applicable in respect to a payor (within the meaning of subsection (a)).

["(e) RELIEF FROM DOUBLE WITHHOLDING.—The Secretary may by regulations provide that where any person is treated as a payor under subsection (b) or (c) with respect to any payment, any other person who (but for this subsection) would be treated as a payor with respect to such payment shall be relieved from the requirements of this subchapter to the extent provided in such regulations.

["(f) LIABILITY OF THIRD PARTIES PAYING OR PROVIDING INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS.—To the extent provided in regulations prescribed by the Secretary, rules similar to the rules of section 3505 (relating to liability of third parties paying or providing for wages) shall apply for purposes of this subchapter. For purposes of the preceding sentence, the last sentence of subsection (b) of section 3505 shall be applied by substituting '10 percent' for '25 percent.'

["SEC. 3454. DEFINITIONS OF INTEREST, DIVIDEND, AND PATRONAGE DIVIDEND.

["(a) INTEREST DEFINED.—For purposes of this subchapter—

["(1) GENERAL RULE.—The term 'interest' means—

["(A) interest on any obligation in registered form or of a type offered to the public,

"(B) interest on deposits with persons carrying on the banking business,

"(C) amounts (whether or not designated as interest) paid by a mutual savings bank, savings and loan association, building and loan association, cooperative bank, homestead association, credit union, industrial loan association or bank, or similar organiaztion, in respect of deposits, investment certificates, or withdrawable or repurchasable shares,

"(D) interest on amounts held by an insurance company under an agreement to pay interest thereon,

"(E) interest on deposits with brokers (as defined in section 6045(c)), and

"(F) interest paid on amounts held by investment companies (as defined in section 3 of the Investment Company Act of 1940 (15 U.S.C. 80a–3)) and on amounts invested in other pooled funds or trusts.

"(2) EXCEPTIONS.—The term 'interest' does not include—

"(A) interest on any obligation issued by a natural person,

"(B) interest on any obligation if such interest is exempt from taxation under section 103(a) or if such interest is exempt from tax (without regard to the identity of the holder) under any other provision of law,

"(C) any amount paid on a depository institution tax-exempt certificate (as defined in section 128(c)(1) (as in effect for taxable years beginning before January 1, 1985)),

"(D) any amount which is subject to withholding under subchapter A of chapter 3 (relating to withholding of tax on nonresident aliens and foreign corporations) by the person paying such amount,

"(E) any amount which would be subject to withholding under subchapter A of chapter 3 by the person paying such amount but for the fact that—

"(i) such amount is income from sources outside the United States,

"(ii) the payor thereof is expected from the application of section 1441(a) by reason of section 1441(c) or a tax treaty, or

"(iii) such amount is original issue discount (within the meaning of section 1232(b)(1)),

"(F) any amount which is exempt from tax under—

"(i) section 892 (relating to income of foreign governments and of international organizations), or

"(ii) section 895 (relating to income derived by a foreign central bank of issue from obligations of the United States or from bank deposits),

"(G) except to the extent otherwise provided in regulations, any amount paid by—

"(i) a foreign government or international organization or any agency or instrumentality thereof,

"(ii) a foreign central bank of issue,

"(iii) a foreign corporation not engaged in trade or business in the United States,

[“(iv) a foreign corporation, the interest payments of which would be exempt from withholding under subchapter A of chapter 3 if paid to a person who is not a United States person, or

[“(v) a partnership not engaged in a trade or business in the United States and composed in whole of nonresident aliens, individuals and persons described in clause (i), (ii), or (iii),

[“(H) any amount on which the person making payment is required to withhold a tax under section 1451 (relating to tax-free covenant bonds), or would be so required but for section 1451(d) (relating to benefit of personal exemptions), and

[“(I) except to the extent otherwise provided in regulations, any amount not described in the foregoing provisions of this paragraph which is paid outside the United States and is income from sources outside the United States.

[“(3) ADJUSTMENT FOR PENALTY BECAUSE OF PREMATURE WITHDRAWAL OF FUNDS FROM TIME SAVINGS ACCOUNTS OR DEPOSITS.—To the extent provided in regulations, the amount of any interest on a time savings account, certificate of deposit, or similar class of deposits shall be appropriately reduced for purposes of this subchapter by the amount of any penalty imposed for the premature withdrawal of funds.

[“(b) DIVIDEND DEFINED.—For purposes of this subchapter—

[“(1) GENERAL RULE.—The term ‘dividend’ means—

[“(A) any distribution by a corporation which is a dividend (as defined in section 316), and

[“(B) any payment made by a stockbroker to any person as a substitute for a dividend (as so defined).

[“(2) SUBCHAPTER S DISTRIBUTIONS AFTER CLOSE OF YEAR.—The term ‘dividend’ includes any distribution described in section 1375(f) (relating to distributions by electing small business corporations after the close of the taxable year).

[“(3) EXCEPTIONS.—The term ‘dividend’ shall not include—

[“(A) any amount paid as a distribution of stock described in section 305(e)(2)(A) (relating to reinvestment of dividens in stock of public utilities),

[“(B) any amount which is treated as a taxable dividend by reason of section 302 (relating to redemptions of stock), 306 (relating to disposition of certain stock), 356 (relating to receipt of additional consideration in connection with certain reorganizations), or 1081(e)(2) (relating to certain distributions pursuant to order of the Securities and Exchange Commission),

[“(C) any amount described in subparagraph (D), (E), or (F) of subsection (a)(2),

[“(D) to the extent provided in regulations, any amount paid by a foreign corporation not engaged in a trade or business in the United States,

[“(E) any amount which is a capital gain dividend distributed by—

[“(i) a regulated investment company (as defined in section 852(b)(3)(C)), or

[“(ii) a real estate investment trust (as defined in section 857(b)(3)(C)),

[“(F) any amount which is an exempt-interest dividend of a regulated investment company (as defined in section 852(b)(5)(A)),

[“(G) any amount paid or treated as paid by a regulated investment company during a year if, under regulations prescribed by the Secretary, it is anticipated that at least 95 percent of the dividends paid or treated as paid during such year (not including capital gain distributions) will be exempt-interest dividends, and

[“(H) any amount described in section 1373 (relating to undistributed taxable income of electing small business corporation).

[“(c) PATRONAGE DIVIDEND.—For purposes of this subchapter—

[“(1) IN GENERAL.—The term ‘patronage dividend’ means—

[“(A) the amount of any patronage dividend (as defined in section 1388(a)) which is paid in money, qualified written notice of allocation, or other property (except a nonqualified written notice of allocation),

[“(B) any amount, described in section 1382(c)(2)(A) (relating to certain nonpatronage distributions), which is paid in money, qualified written notice of allocation, or other property (except nonqualified written notice of allocation) by an organization exempt from tax under section 521 (relating to exemption of farmers’ cooperatives from tax), and

[“(C) any amount paid in money or other property (except written notice of allocation) in redemption of a nonqualified written notice of allocation atributable to any source described in subparagraph (A) or (B).

[“(2) EXCEPTIONS.—The term ‘patronage dividend’ shall not include any amount described in subparagraph (D), (E), or (F) of subsection (a)(2).

[“(3) SPECIAL RULES.—In determining the amount of any patronage dividend—

[“(A) property (other than a written notice of allocation) shall be taken into account at its fair market value.

[“(B) a qualified written notice of allocation described in section 1388(c)(1)(A) shall be taken into account at its stated dollar amount, and

[“(C) a patronage dividend part of which is a qualified written notice of allocation described in section 1388(c)(1)(B) (and not in section 1388(c)(1)(A)) shall be taken into account only if 50 percent or more of such dividend is paid in money or by a qualified check, and any such qualified written notice of allocation which is taken into account after the application of this subparagraph shall be taken into account at its stated dollar amount.

[“(4) DEFINITIONS.—For purposes of this subsection—

[“(A) QUALIFIED WRITTEN NOTICE OF ALLOCATION.—The term ‘qualified written notice of allocation’ has the meaning given to such term by section 1388(c).

["(B) NONQUALIFIED WRITTEN NOTICE OF ALLOCATION.—The term 'nonqualified written notice of allocation' has the meaning given to such term by section 1388(d).

["(C) QUALIFIED CHECK.—The term 'qualified check' has the meaning given to such term by section 1388(c)(4).

["SEC. 3455. OTHER DEFINITIONS AND SPECIAL RULES.

["(a) DEFINITIONS.—For purposes of this subchapter—

["(1) PERSON.—The term 'person' includes any governmental unit and any agency or instrumentality thereof and any international organization.

["(2) STATE.—The term 'State' means a State, the District of Columbia, a possession of the United States, any political subdivision of any of the foregoing, and any wholly owned agency or instrumentality of any one or more of the foregoing.

["(3) UNITED STATES.—The term 'United States' means the United States and any wholly owned agency or instrumentality thereof.

["(4) FOREIGN GOVERNMENT.—The term 'foreign government' means a foreign government, a political subdivision of a foreign government, and any wholly owned agency or instrumentality of any one or more of the foregoing.

["(5) INTERNATIONAL ORGANIZATION.—The term 'international organization' means an international organization and any wholly owned agency or instrumentality thereof.

["(6) NONRESIDENT ALIEN.—The term 'nonresident alien individual' includes an alien resident of Puerto Rico.

["(7) WITHHOLD, ETC., INCLUDE DEDUCT.—The terms 'withhold', 'withholding', and 'withheld' include deduct, deducting, and deducted.

["(b) TREATMENT OF ORIGINAL ISSUE DISCOUNT.—

["(1) IN GENERAL.—Except as provided in paragraphs (2) and (3) the tax imposed by section 3451 shall apply to the amount of original issue discount on any obligation which is includible in the gross income of the holder during the calendar year. Any such amount shall be treated as a payment for purposes of this subchapter.

["(2) TRANSFERRED OBLIGATIONS.—

["(A) IN GENERAL.—In the case of original issue discount on any obligation which has been transferred from the original holder, the tax imposed by section 3451 shall apply to such original issue discount as if the subsequent holder were the original holder.

["(B) SPECIAL RULE FOR SHORT-TERM OBLIGATIONS.—In the case of any obligation with a fixed maturity date not exceeding 1 year from the date of issue which has been transferred from the original holder, if any subsequent purchaser establishes the date on which, and the purchase price at which, he acquired such obligation, the amount of original issue discount on such obligation shall be determined (subject to such regulations as the Secretary may prescribe) as if it were issued on the date such subsequent purchaser acquired such obligation for an issue price equal to the purchase price at which such subsequent purchaser acquired such obligation.

["(3) LIMITATION ON AMOUNT WITHHELD.—

["(A) IN GENERAL.—The amount of tax imposed by section 3451 on the original issue discount on any obligation which is required to be withheld under section 3415(a) in any calendar year shall not exceed the amount of cash paid with respect to such obligation during such calendar year.

["(B) AUTHORITY OF SECRETARY TO ELIMINATE LIMITATION IN CERTAIN CASES.—If the Secretary determines by regulations that a type of obligation is frequently used to avoid the purposes of this subchapter, subparagraph (A) shall not apply with respect to original issue discount on any obligation of such type which is issued more than 30 days after the first date on which such regulations are published in the Federal Register.

["(C) PAYMENTS FROM WHICH WITHHOLDING IS TO BE MADE.—Except to the extent otherwise provided in regulations, the tax imposed by section 3451 with respect to original issue discount for any calendar year shall be withheld from each cash payment made with respect to such obligation during such calendar year in the proportion which the amount of such payment bears to the aggregate of such payments.

["(4) ORIGINAL ISSUE DISCOUNT DEFINED.—For purposes of this subsection, the term 'original issue discount' has the meaning given such term by section 1232(b)(1).

["SEC. 3456. ADMINISTRATIVE PROVISIONS.

["(a) RETURN AND PAYMENT BY GOVERNMENTAL UNITS.—If the payor of any payment subject to withholding under section 3451 is the United States or a State, or an agency or instrumentality thereof, the return of the tax withheld under this subchapter shall be made by the officer or employee having control of the payment of the amount subject to withholding or by any officer or employee appropriately designated to make such withholding.

["(b) ANNUAL WITHHOLDING BY FINANCIAL INSTITUTIONS.—

["(1) IN GENERAL.—Under regulations prescribed by the Secretary, a financial institution described in subparagraph (B) or (C) of section 3454(a)(1) may elect to defer withholding of the tax imposed by section 3451 during any calendar year on interests paid on savings accounts, interest-bearing checking accounts, and similar accounts until a date which is not later than the last day of such year.

["(2) CONDITION FOR ELECTION.—The regulations prescribed under paragraph (1) shall provide that an election under such paragraph is conditional on agreement by the person making the election—

["(A) that the balance in any account subject to such election shall at no time be less than an amount equal to the tax under section 3451 which would have been withheld as of such time if such election were not in effect, and

["(B) that if an account subject to such election is closed before the date on which the tax under section 3451 would (but for this subparagraph) be withheld as a result of such

an election, the tax shall be withheld before the time of closing such account.

["(c) TAX PAID BY RECIPIENT.—If a payor, in violation of the provisions of this subchapter, fails to withhold the tax imposed under section 3451, and thereafter the tax against which such tax may be credited is paid, the tax so required to be withheld shall not be collected from the payor; but this subsection shall in no case relieve the payor from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to withhold.

["(d) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subchapter."

[SEC. 302. CREDIT AGAINST TAX.

[(a) IN GENERAL.—Section 31 (relating to tax withheld on wages) is amended to read as follows:

["SEC. 31. TAX WITHHELD ON WAGES, INTEREST, DIVIDENDS, AND PATRONAGE DIVIDENDS.

["(a) WAGE WITHHOLDING.—The amount withheld under section 3402 as tax on the wages of any individual shall be allowed to the recipient of the income as a credit against the tax imposed by this subtitle.

["(b) WITHHOLDING FROM INTEREST, DIVIDENDS, AND PATRONAGE DIVIDENDS.—The amount withheld under section 3451 as tax on interest, dividends, and patronage dividends shall be allowed to the recipient of the income as a credit against the tax imposed by this subtitle.

["(c) CREDIT FOR SPECIAL REFUNDS OF SOCIAL SECURITY TAX.—The Secretary may prescribe regulations providing for the crediting against the tax imposed by this subtitle of the amount determined by the taxpayer or the Secretary to be allowable under section 6413(c) as a special refund of tax imposed on wages. The amount allowed as a credit under such regulations shall, for purposes of this subtitle, be considered an amount withheld at source as tax under section 3402.

["(d) YEAR FOR WHICH CREDIT ALLOWED.—

["(1) IN GENERAL.—Except as otherwise provided in paragraph (2), any credit allowed by this section shall be allowed for the taxable year beginning in the calendar year in which the amount was withheld (or, in the case of subsection (c), in which the wages were received). If more than 1 taxable year begins in a calendar year, such amount shall be allowed as a credit for the last taxable year so beginning.

["(2) SPECIAL RULE FOR CERTAIN DISTRIBUTIONS OF SUBCHAPTER S CORPORATIONS.—The amount withheld with respect to a distribution by an electing small business corporation (within the meaning of section 1371(b)) which is treated as a distribution of such corporation's undistributed taxable income for the preceding year under section 1375(f)(1) shall be allowed as a credit for the taxable year of the recipient beginning in the calendar year in which the preceding year of the corporation ends."

[(b) TREATMENT OF ESTATES AND TRUSTS.—

[(1) IN GENERAL.—Section 643 (relating to definitions applicable to estates and trusts) is amended by adding at the end thereof the following new subsection:

[“(d) COORDINATION WITH WITHHOLDING ON INTEREST AND DIVIDENDS.—Except to the extent otherwise provided in regulations, this subchapter shall be applied with respect to payments subject to withholding under subchapter B of chapter 24—

[“(1) by allocating between the estate or trust and its beneficiaries any credit allowable under section 31(b) (on the basis of their respective shares of interest, dividends, and patronage dividends taken into account under this subchapter),

[“(2) by treating each beneficiary to whom such credit is allocated as if an amount equal to such credit had been paid to him by the estate or trust, and

[“(3) by allowing the estate or trust a deduction in an amount equal to the credit so allocated to beneficiaries.”

[(2) TECHNICAL AMENDMENT.—Subsection (a) of section 661 (relating to deduction for estates and trusts accumulating income or distributing corpus) is amended by adding at the end thereof the following new sentence: “For purposes of paragraph (1), the amount of distributable net income shall be computed without the deduction allowed by section 642(c).”

[(c) CONFORMING AMENDMENT.—Paragraph (1) of section 6413(c) is amended by striking out “section 31(b)” and inserting in lieu thereof “section 31(c)”.

[SEC. 303. RETURNS REGARDING PAYMENTS OF DIVIDENDS AND PAYMENTS OF INTEREST.

[(a) DIVIDENDS.—

[(1) IN GENERAL.—Paragraph (1) of subsection 6042(a) (relating to returns regarding payments of dividends) is amended—

[(A) by striking out “or” at the end of subparagraph (A),

[(B) by inserting “or” at the end of subparagraph (B),

[(C) by inserting after subparagraph (B) the following new subparagraph:

[“(C) who is required to withhold tax under section 3451 on any payment of dividends,”,

[(D) by striking out the period at the end thereof, and

[(E) by inserting the following at the end thereof “, and, in the case of a payment upon which tax is withheld, the amount of tax withheld.”

[(2) STATEMENTS.—Section 6042(c) (relating to statements to be furnished to persons with respect to whom information is furnished) is amended—

[(A) by striking out “and” at the end of paragraph (1),

[(B) by striking out the period at the end of paragraph (2) and inserting in lieu thereof “, and ”,

[(C) by inserting after paragraph (2) the following paragraph:

[“(3) the amount of tax withheld under section 3451.”, and

[(D) by striking out “No statement” in the last sentence thereof and inserting in lieu thereof “Except in the case of a return required by reason of subparagraph (C) of subsection (a)(1), no statement”.

[(3) DUPLICATE FILED WITH SECRETARY.—Section 6042 is amended by adding at the end thereof the following new subsection:

[“(e) DUPLICATE OF SUBSECTION (c) STATEMENT MAY BE REQUIRED TO BE FILED WITH SECRETARY.—A duplicate of any statement made pursuant to subsection (c) which is required to set forth an amount withheld under section 3451 shall, when required by regulations prescribed by the Secretary, be filed with the Secretary.”

[(b) INTEREST.—Section 6049 (relating to returns regarding payments of interest) is amended by adding at the end thereof the following new subsection:

[“(e) DUPLICATE OF SUBSECTION (c) STATEMENT MAY BE REQUIRED TO BE FILED WITH SECRETARY.—A duplicate of any statement made pursuant to subsection (c) which is required to set forth an amount withheld under section 3451 shall, when required by regulations prescribed by the Secretary, be filed with the Secretary.”

[SEC. 304. RETURNS REGARDING PAYMENTS OF PATRONAGE DIVIDENDS.

[(a) IN GENERAL.—Paragraph (1) of subsection 6044(a) is amended to read as follows:

[“(1) IN GENERAL.—Except as otherwise provided in this section, every cooperative to which part I of subchapter T of chapter 1 applies which—

[“(A) makes payments of amounts described in subsection (b) aggregating $10 or more to any person during any calendar year, or

[“(B) is required to withhold any tax under section 3451, shall make a return according to the forms or regulations prescribed by the Secretary, setting forth the aggregate amount of such payments, the name and address of the person to whom paid, and the amount of tax withheld.”

[(b) AMOUNTS SUBJECT TO REPORTING.—Paragraph (1) of section 6044(b) (relating to amounts subject to reporting) is amended by striking out “under subsection (a)”, and by inserting “under paragraph (1)(A) or (2) of subsection (a)”.

[(c) STATEMENTS.—Section 6044(e) (relating to statements to be furnished to persons with respect to whom information is furnished) is amended—

[(1) by striking out “and” at the end of paragraph (1),

[(2) by striking out the period at the end of paragraph (2), and inserting “, and” in lieu thereof,

[(3) by inserting after paragraph (2) the following paragraph:

[“(3) the amount of tax withheld under section 3451.”, and

[(4) by striking out “No statement” in the last sentence thereof and inserting in lieu thereof “Except in the case of a return required by reason of subparagraph (B) of subsection (a)(1), no statement”.

[(d) DUPLICATE FILED WITH SECRETARY.—Section 6044 is amended by adding at the end thereof the following new subsection:

[“(f) DUPLICATE OF SUBSECTION (e) STATEMENT MAY BE REQUIRED TO BE FILED WITH SECRETARY.—A duplicate of any statement made pursuant to subsection (e) which is required to set forth an amount withheld under section 3451 shall, when required by regulations prescribed by the Secretary, be filed with the Secretary.”

[SEC. 305. DENIAL OF DEDUCTION FOR CERTAIN TAXES.

[(a) NO DEDUCTION FOR TAX WITHHELD AT SOURCE ON INTEREST, DIVIDENDS, AND PATRONAGE DIVIDENDS.—Paragraph (1) of section 275(a) (relating to denial of deduction for certain taxes) is amended—

[(1) by striking out "and" at the end of subparagraph (B),

[(2) by striking out the period at the end of subparagraph (C) and inserting in lieu thereof ", and", and

[(3) by inserting after subparagraph (C) the following subparagraph:

["(D) the tax withheld at source on interest, dividends, and patronage dividends under section 3451."

[(b) NO DEDUCTION OF TAXES WITHHELD ON INTEREST AND DIVIDENDS IN DETERMINING TAXABLE INCOME.—Subsection (b) of section 3502 (relating to the nondeductibility of taxes in computing taxable income) is amended—

[(1) by striking out "under chapter 24" and inserting in lieu thereof "under subchapter A of chapter 24", and

[(2) by adding at the end thereof the following new subsection:

["(c) The tax withheld under subchapter B of chapter 24 shall not be allowed as a deduction in computing taxable income under subtitle A either to the person withholding the tax or to the recipient of the amounts subject to withholding."

[SEC. 306. PENALTIES.

[(a) CIVIL PENALTY.—Paragraph (1) of section 6682(a) (relating to false information with respect to withholding) is amended by inserting "or section 3452(f)(1)(A)" after "section 3402".

[(b) CRIMINAL PENALTY.—Section 7205 (relating to fraudulent withholding exemption certificate or failure to supply information) is amended—

[(1) by striking out "Any individual" and inserting in lieu thereof "(a) WITHHOLDING ON WAGES.—Any individual", and

[(2) by adding at the end thereof the following new subsection:

["(b) WITHHOLDING OF INTEREST AND DIVIDENDS.—Any person who—

[("(1) willfully files an exemption certificate with any payor under section 3452(f)(1)(A), which is known by him to be fraudulent or to be false as to any material matter, or

["(2) is required to furnish notice under section 3452(f)(1)(B), and willfully fails to furnish such notice in the manner and at the time required pursuant to section 3452(f)(1)(B) or the regulations prescribed thereunder,

shall, in lieu of any penalty otherwise provided, upon conviction thereof, be fined not more than $500, or imprisoned not more than 1 year, or both."

[SEC. 307. CONFORMING AND CLERICAL AMENDMENTS.

[(a) CONFORMING AMENDMENTS.—

[(1) Paragraph (3) of section 274(e) (relating to disallowance of certain entertainment, etc., expenses) is amended by inserting "subchapter A of" before "chapter 24".

[(2) Section 3403 (relating to liability for tax) is amended by striking out "this chapter" and inserting in lieu thereof "this subchapter".

[(3) Paragraph (4) of section 3507(d) (relating to advance payment of earned income credit) is amended by inserting "subchapter A of" before "chapter 24".

[(4) Subchapter (B) of section 6013(g)(1) (relating to joint returns of income tax by husband and wife) is amended by striking out "(relating to wage withholding)" and by inserting in lieu thereof "(relating to withholding on wages, interest, dividends, and patronage dividends)" and by striking out "of wages."

[(5) Paragraph (1) of section 6013(h) is amended by striking out "(relating to wage withholding)" and inserting in lieu thereof "(relating to withholding on wages, interest, dividends, and patronage dividends)" and by striking out "of wages".

[(6) Paragraph (1) of section 6015(j) (relating to declaration of estimated income tax by individuals) is amended by striking out ", as defined in section 3401(a)," and inserting in lieu thereof "(as defined in section 3401(a)), or to the interest, dividends, and patronage dividends (as defined in section 3454),".

[(7) Subparagraph (A) of section 6051(f)(1) (relating to receipts for employees is amended by inserting "subchapter A of" before "chapter 24."

[(8) Paragraph (2) of section 6365(c) (relating to definitions and special rules for purposes of the collection of State individual income taxes) is amended by inserting ", interest, dividends, and patronage dividends" before "paid on or after such date".

[(9) Subsection (b) of section 6401 (relating to amounts treated as overpayments) is amended by inserting ", interest, dividends, and patronage dividends" after "tax withheld on wages".

[(10) Paragraph (1) of section 6413(a) (relating to special credit and refund rules applicable to certain employment taxes) is amended by striking out "or 3402 is paid with respect to any payment of remuneration," and inserting in lieu thereof "3402 or 3451 is paid with respect to any payment of remuneration, interest, dividends, or other amounts,".

[(11) Subsection (b) of section 6413 is amended—

[(A) by striking from the heading of such subsection the words "OF CERTAIN EMPLOYMENT TAXES", and

[(B) by striking out "or 3402 is paid or deducted with respect to any payment of remuneration" and inserting in lieu thereof "3402 or 3451 is paid or deducted with respect to any payment of remuneration, interest, dividends, or other amount".

[(12) The heading for section 6413 is amended to read as follows:

["SEC. 6413. SPECIAL RULES APPLICABLE TO CERTAIN TAXES UNDER SUBTITLE C."

[(13) The table of sections for subchapter B of chapter 65 is amended by striking out the item relating to section 6413 and inserting in lieu thereof the following:

["Sec. 6413. Special rules applicable to certain taxes under subtitle C."

[(14) Subsections (e)(1) and (g)(3) of section 6654 (relating to failure by individuals to pay estimated income tax) are

amended by inserting ", interest, dividends, and patronage dividends" after "tax withheld at source on wages".

[(15) The last sentence of section 7215(b) (relating to offenses with respect to collected taxes) is amended to read as follows: "For purposes of paragraph (2), a lack of funds existing immediately after the payment of wages or amounts subject to withholding under subchapter B of chapter 24 (whether or not created by the payment of such wages or amounts) shall not be considered to be circumstances beyond the control of a person."

[(16) Subsection (d) of section 7654 (relating to coordination of United States and Guam individual income taxes) is amended by inserting "subchapter A of" before "chapter 24".

[(17) Section 7701(a)(16) (defining the term "withholding agent") is amended by striking out "or 1461" and inserting in lieu thereof "1461 or 3451".

[(b) CLERICAL AMENDMENTS.—

[(1) The heading of subtitle C is amended to read as follows:

["Subtitle C—Employment Taxes and Collection of Income Tax at Source".

[(2) The table of subtitles for the Internal Revenue Code of 1954 is amended by striking out the item relating to subtitle C and inserting in lieu thereof the following:

["SUBTITLE C. Employment taxes and collection of income tax at source."

[(3) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by striking out the item relating to section 31 and inserting in lieu thereof the following:

["Sec. 31. Tax withheld on wages, interest, dividends, and patronage dividends."

[(4) Chapter 24 is amended by striking out the chapter heading inserting in lieu thereof the following:

["CHAPTER 24—COLLECTION OF INCOME TAX AT SOURCE

["SUBCHAPTER A. Withholding from wages.
["SUBCHAPTER B. Withholding from interest and dividends.

["Subchapter A—Withholding From Wages".

[(5) The heading for chapter 25 is amended to read as follows:

["CHAPTER 25—GENERAL PROVISIONS RELATING TO EMPLOYMENT TAXES AND COLLECTION OF INCOME TAXES AT SOURCE".

[(6) The table of chapters for subtitle C is amended by striking out the items relating to chapters 24 and 25 and inserting in lieu thereof the following:

["CHAPTER 24. Collection of income tax at source.
["CHAPTER 25. General provisions relating to employment taxes and collection of income taxes at source."

[SEC. 308. EFFECTIVE DATES; SPECIAL RULES.

[(a) IN GENERAL.—Except as otherwise provided in this section, the amendments made by this part shall apply to payments of interest, dividends, and patronage dividends paid or credited after June 30, 1983.

[(b) DELAY IN APPLICATION TO CERTAIN PAYORS.—The Secretary of the Treasury shall prescribe such regulations which delay (but not beyond December 31, 1983) the application of some or all of the provisions of subchapter B of chapter 24 of the Internal Revenue Code of 1954 to any payor until such time as such payor is able to comply without undue hardship with the requirements of such provisions.

[(c) TEMPORARY RULE FOR CERTAIN WITHHOLDING EXEMPTIONS.—Until regulations are prescribed by the Secretary of the Treasury or his delegate under section 3452(c)(1)(B) of the Internal Revenue Code of 1954 (as added by this part), the payor may treat any person whose name reasonably indicates that such person is described in paragraph (2) of section 3452(c) of such Code (other than subparagraph (J) or (K) thereof) as an exempt recipient.

[(d) DELAY IN MAKING DEPOSITS.—The time for making deposits under section 6302 of the Internal Revenue Code of 1954 of the tax imposed by section 3451 of such Code which is withheld by any person shall, to the extent provided in regulations, take into account the cost to such person of instituting a withholding system in order to comply with subchapter B of chapter 24 of such Code.]

SUPPLEMENTAL VIEWS OF THE HONORABLE DAN ROSTENKOWSKI, BARBER B. CONABLE, JR., J. J. PICKLE, FORTNEY H. STARK, THOMAS J. DOWNEY, JAMES M. SHANNON, ROBERT T. MATSUI, BILL FRENZEL

The Committee on Ways and Means has yielded to the wishes of the majority of the House in reporting legislation to repeal withholding on interest and dividends. Our vote, however, does not necessarily reflect our personal approval of the measure from the standpoint of sound tax policy. To underscore that fact, the Committee reported this bill "without recommendation."

The Committee does not dispute the legitimacy of the Discharge Petition as a way of bringing an issue to a floor vote under the House rules. But we are concerned at the prospect of this legislative procedure becoming a blueprint for other special interests. We are distressed that the banking industry's campaign to combine misinformation with sophisticated mass mailing techniques will become the tactical guide for others who would gain their ends by spreading panic.

The undersigned seek to put the witholding debate into proper perspective, both from the standpoint of the current budget crisis and appropriate tax policy.

Withholding on interest and dividends has never been a popular proposal in Congress. It has been rejected more than once in recent years. Its acceptance as part of last year's Tax Equity and Fiscal Responsibility Act (TEFRA) was largely prompted by the prospect of ever increasing deficits. The TEFRA conferees determined that it was far better to raise revenues by improving compliance, rather than by imposing new taxes. Republicans and Democrats both cast majority votes for the bill in a show of rare political courage and fiscal responsibility.

Yet even the revenue increases ordered in TEFRA have not kept the deficit for fiscal year 1983 under $200 billion.

Less than two months ago, the House moved forcefully to control soaring deficits by passing a budget resolution that orders this Committee to raise revenues by $30 billion in fiscal year 1984, $40 billion in fiscal year 1985 and $50 billion in fiscal year 1986. While some of us may not have supported that resolution, and while those amounts might be adjusted before the budget process is completed, the resolution does demonstrate that once again this body has clearly committed itself to bring revenues into better balance with expenditures, thus alleviating the negative pressure on recovery.

It is with no small measure of irony that many of those same Members who took tough stands on raising revenues have now insisted that the Committee on Ways and Means repeal withholding, thereby reducing revenues by roughly $13.4 billion over the next five fiscal years.

While we recognize that repeal of withholding is politically inevitable, we want to leave no doubt that such action adds increasing pressure on the House to raise taxes this year to offset the revenue loss. It also weakens the prospects of raising revenue through compliance measures—and all but mandates that we turn to new sources of taxation, or increased tax rates, to met the demands of the budget.

In our opinion, the repeal of withholding on interest and dividends in no way diminishes it as a cost effective means to improve tax compliance—and raise revenues. We continue to find compliance a preferable way to raise revenues than imposing new taxes or increasing present tax rates.

Withholding has served as sound tax administration since withholding was imposed on wages in 1943. We all recognize that withholding has long been the backbone of our tax system, assuring 99 percent compliance on wage income and automatically collecting 73 percent of all federal revenues. By contrast, the compliance rate on the payment of taxes is 89 percent on interest and 85 percent on dividends, according to the IRS. More than 16 million taxpayers either failed to file a return or underreported interest and dividend income.

Why is it improper to extend withholding to interest and dividends? Are wage earners to be treated differently from those who receive unearned income? Are working people less trustworthy?

Those who oppose interest and dividend withholding make one of two major arguments. The first is that honest taxpayers and the banking industry should not have to pay for the non-compliance of others. The campaign against withholding was waged in terms of its adverse effect on "small savers" and its administrative and financial burden on financial institutions.

We would respond that the TEFRA conferees not only believed that extending withholding was fair, but they also bent over backward to protect elderly and low income taxpayers, as well as small savers, from unnecessary harassment and hardship. Every effort was made to accommodate the legitimate concerns of financial institutions that were expressed to the TEFRA conferees, including allowance of a generous "float" to compensate for start-up costs. In addition, year-end withholding on interest bearing accounts was permitted to blunt the loss of interest to both savers and bankers. As a result of these accommodations, many taxpayers actually would experience a slow down in tax payments, from quarterly to annual payments. As the last decision in the TEFRA conference, the effective date of withholding was postponed to July 1, 1983, to accommodate an orderly implementation by financial institutions, at a revenue loss of $1.2 billion in fiscal year 1983.

We would also observe that a much more complicated withholding requirement was readily implemented on January 1. Broad based withholding was begun on pensions and annuities, using a graduated, wage-based approach. It is obvious that the real issue is ont the complexity of the task.

The second basic argument against withholding is that compliance is better achieved by tougher IRS reporting standards and stiffer enforcement. We would respond that information reporting is no substitute for withholding. Reporting merely identifies potential dis-

crepancies. It is not a collection mechanism. Significantly, 60 percent of the compliance improvement on interest income would come from nonfilers—an extremely costly group to identify, find, and collect tax from, in the absence of withholding.

We conclude that as a matter of tax policy, withholding on interest and dividends is the best mechanism to improve compliance and the public's perception of fairness of the tax system. We conclude that the alternatives to withholding are likely to be much more expensive for both the IRS and the public to implement, and, more importantly, the alternatives may well entail a greater governmental intrusion into our private affairs than would withholding. Taxpayers would have to justify their behavior to the IRS more often, as would payors required to file information reports. The increased level of audit and penalty imposition required by stronger enforcement would be burdensome for many taxpayers and information reporters. We also conclude that the real economic factor which motivates the banking industry is the loss of investment income on those customer funds which are eventually turned over to the government as a result of withholding. Obviously, no amount of float provided by Congress or the Treasury can compensate for losing the use of customer funds.

In closing, we make some final observations for those who have expressed an interest in improving the tax compliance mechanisms of information reporting, document matching, so-called back-up withholding, and associated penalties. In the absence of withholding, there will be opportunitiesto refine our present techniques and to achieve somewhat better compliance than are possible today. Certainly we have learned that a major effort must be undertaken by all payors to improve that quality of the taxpayer identification numbers in their files and that the motivator is unlimited penalties. These opportunities should not be allowed to pass us by heedlessly.

In our haste, care must be taken to avoid proposals which, for limited gains, may have the effect of harassing basically honest taxpayers or which show a disregard for the privacy rights of our citizens. Our tax system and, indeed the IRS itself cannot withstand unlimited amounts of disrespect by our citizenry. Thus, we urge caution at this time as to alternative measures. However, at the same time, we believe that the Committee should continue to consider alternatives for improving compliance with our Federal income tax system because the continued integrity of the system directly depends on a high level of compliance.

In the end, the repeal of withholding further erodes the trust that average taxpayers—mostly wage earners—have in our tax system. Not only does repeal of withholding on interest and dividends threaten to increase the average tax burden, it also encourages taxpayers to devise their own tax justice. As trust in the tax system declines, so does the ability to govern effectively and efficiently.

However, the most immediate effect of repeal is the increase in the Federal deficit—and its effect on the long-term economic recovery of this nation. Let us repeat: the loss of revenue resulting from repeal of withholding only raises the tax revenue mark that must be met if the deficit is to be controlled. The question that those in Congress

and the financial community who so vigorously pressed for repeal must ponder is how to best offset the increased deficit that will result.

In conclusion, we regret that the American public has been so completely misled by the advocates of repeal, and sincerely hope that the measure which will be subsequently enacted to replace these lost revenues will reflect the sound tax policy and fairness of the withholding provisions which are about to be discarded.

DAN ROSTENKOWSKI.
BARBER B. CONABLE, JR.
J. J. PICKLE.
FORTNEY H. STARK.
THOMAS J. DOWNEY.
JAMES M. SHANNON.
ROBERT T. MATSUI.
BILL FRENZEL.

SUPPLEMENTAL VIEWS OF THE HONORABLE BILL FRENZEL

I have signed the views of the Honorable Dan Rostenkowski and the Honorable Barber Conable because I believe they are a thoughtful and accurate statement of the facts almost completely as I perceive them.

Only in one instance do I feel a need to express a little different point of view. In the second paragraph, the signers express nervousness about misinformation in the repeal campaign and about the threat that the campaign will be a model for those "spreading panic".

I believe that the people and the Congress can usually tell right from wrong. I don't think that misinformation made the difference. There is misinformation aplenty on every issue here. The people made the difference.

Because the people made a different decision than I did is no reason to curse the process. The people knew what irritated them and they were activated to get rid of it.

No one can move the people unless they want to be moved. I don't think we should fear the people no matter who moves them.

BILL FRENZEL.

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